



Commonwealth of Massachusetts
**DEPARTMENT OF HOUSING &
COMMUNITY DEVELOPMENT**

Charles D. Baker, Governor ♦ Karyn E. Polito, Lieutenant Governor ♦ Jennifer D. Maddox, Undersecretary

Public Housing Notice 2020-26

To: All Local Housing Authority Executive Directors
From: Laura Taylor, Director, Bureau of Housing Management
Subject: Program Update for Agreed Upon Procedures (AUP)
Date: July 1, 2020

The following memo details two upcoming changes to the Agreed Upon Procedures (AUP) program and one deadline change:

- Moving the AUP program to a remote process due to COVID (temporary change)
- Moving the AUP program to a new web based application (permanent change)
- 9/30/2019 AUPs are now due 9/30/2020 rather than 5/31/2020

These changes impact the types of procedures in the AUP program as well as the process of conducting the AUPs.

DHCD will be offering trainings on the following two dates to review these changes and to demo the new AUP web application.

Training Dates:

Trainings will be offered via GoToMeeting. Please forward details to any staff you want to join these trainings. DHCD will issue additional training dates in August.

Training #1: July 8th – 1pm to 2:30pm

Training #2: July 15th – 12:30pm to 2pm

Training Link:

<https://global.gotomeeting.com/join/410235381>

You can also dial in using your phone.

United States: [+1 \(786\) 535-3211](tel:+17865353211)

Access Code: 410-235-381

AUPs Impacted

Remote Process - All AUPs that were not submitted to DHCD prior to the Governor's stay at home order will need to be completed using the remote format.

Web Based Format – All AUPs that are not started as of July 1st 2020 will need to be completed in DHCD's new AUP web-based application.

AUP Process Changes

For the foreseeable future the AUP program will be conducted remotely. It is possible that later AUPs might be able to be scheduled in person based on the Reopening Phase at the time (likely in Phase IV). DHCD will notify LHAs when LHAs and auditors may resume in person AUPs. LHAs will need to send necessary documentation to their auditor by scanning and uploading it to a secure system. DHCD has built a secure upload feature in the new AUP application that is available to LHAs and auditors. Any files uploaded to auditors **will not be viewable to DHCD**. Email is not a secure way of transmitting these documents. We temporarily changed procedures (see details below) to minimize the amount of scanned documents LHAs need to send.

Further, starting July 1st 2020, all AUPs not previously started will need to be submitted through the new online AUP web application. This should be an easier process for LHAs and auditors. Once the new system is live, Executive Directors will receive more information about creating an account in the new AUP system.

Once an auditor has completed an AUP, LHAs will receive an email to respond to any exceptions. LHAs simply log in, enter comments for any exceptions and send back to auditor. If they had no exceptions, they do not have to do anything, they will just receive an email notification to view their AUP.

Structure of the AUP

As the AUP moves remotely and to the new web application, there are certain changes to the procedures of the AUP (some permanent and some temporary).

Temporary Changes to the AUP due to remote process:

- Turning off AUP procedure in inventory section that requires auditors to verify existence of assets.
- Reducing the scope of the procurement section– only LHA led procurements will be examined; not RCAT or DHCD assisted procurements. Rather than looking at the entire procurement file, auditors will only be requesting a limited number of documents.
- MRVP section – certain procedures asking for documentation will be turned off.

These changes will be reversed when DHCD signals that LHAs and auditors may resume in-person AUPs.

Changes to the AUP due to the move to the web application (these are permanent):

- Cuts: The AUP has twenty fewer procedures (now only 66 procedures instead of 86 previously). Instead of eight criteria, there are now seven. Some procedures from the Cash Management and Operating Subsidy criteria have been reorganized into a new General Accounting Criteria (along with procedures from other AUP sections).
- Clarifications: Certain procedures have clarified wording to fit more in line with AUP format.
- Reorganization: Procedures were reorganized slightly; in particular, all the financial procedures were consolidated in new General Accounting section.
- Expansion of Existing Procedures:

- Previously checked just a few operating statement accounts against the general ledger; now check all accounts.
- Larger sample size for accounts payables (due to high prior findings in this area), but individual sub-categories eliminated (i.e. capital, credit card, reimbursements)
- Three new procedures (highlighted in orange in Appendix A):
 - Operating reserve notification to DHCD per budget guidelines
 - Check to ensure LHAs have entered all vacancies in vacancy system
 - Accounts payables – added to AUP instead of PMR – checks supporting documentation against accounts payables lines in financial statements

The new AUP procedures and format are at the end of this Public Housing Notice (see Appendix A).

What to Expect

June to September:

- AUPs Prior to 9/30/19 FYE - HMS will be reaching out for any missing AUPs or following up on AUPs with exceptions.
- 9/30/19 AUPs & 12/31/19 AUPs – Auditors may be reaching out requesting documents in order to complete these AUPs remotely.

Deadlines will be extended for the submittal of AUPs. Extended deadlines allow more time for LHAs to scan documents to auditors. We recommend staff go into offices when no one else is around for scanning or coordinate with someone else who is already on site to scan documents. To ensure these documents are sent securely, DHCD has made available a secure upload feature in the AUP application.

Deadline extensions include:

- 9/30/19 AUPs originally due 5/31/20 will see a deadline extension to 9/30/20.
- Later FYEs will also likely be extended and will be announced later this summer.

Appendix A – AUP Web Format (not adjusted for remote changes)

Housing Authority Name:

Fiscal Year End (FYE):
Date of AUP Conducted:
Executive Director:
CPA:
CPA Phone:
HMS
Total AUP Exceptions:

A. General Accounting			
Total # of exceptions:	Rating:		
	Exceptions	CPA Recommendations	LHA Response
A. Reconciling financial statements to general ledger.			
1. The amounts reported on the Operating Statement and Balance Sheet (DHCD Forms 51-1 and 51-2, respectively) reconcile to the LHA's general ledger. (Tolerable error of +/- \$100). For all cases that don't match, please detail specifics including at a minimum account and variance amount in column to right.			
B. The following general ledger accounts reconcile to supporting documentation (Tolerable error of +/- \$100, unless otherwise noted): For all cases that don't match, please detail specifics including at a minimum account and variance amount in CPA Recommendations column.			
1. Cash accounts (#1111 to #1114.1 and #1162) are in agreement with bank statements and reconciliations			
2. Tenant Accounts Receivable and Prepaid Tenant Rent accounts (#1122, #1124 and #2240) are in agreement with agings of Tenants Accounts Receivable (TAR)			
3. Capital Assets and Accumulated Depreciation (all fixed assets except 1400.2) are in agreement with the depreciation schedule/fixed asset listing).			
4. Accounts Payables accounts (#2111, #2111.1, #2120 and #2139) are in agreement with supporting documentation for Accounts Payables and accruals.			
5. Accrued Compensated Absences accounts (#2135 and #2335.01) are in agreement with the compensated absences schedule.			
6. DHCD approved budget exemptions for <u>direct</u> reimbursement as found in the (ANUEL & Subsidy Worksheet - Section 8 in the Operating Statement) are in agreement with LHA record of actual expenses in the General Ledger.			
7. Salaries and Gross Wages (4110, 4410, 4120) (tolerable error of +/- 3.0%) are in agreement with the MA form WR-1 (state filings).			

8. Balance Sheet Accounts (#2140, #2339.1, and #2339.2) are in agreement with OPEB/pension reporting.			
C. DHCD Public Housing Notice #2018-4, Direct Cost Exemption for Operating Reserve Augmentation in FY2018 Budget & New Operating Reserve Thresholds.			
If operating reserves are below 35% and expenditure is Health and Safety related, LHA submitted Request form after expenditure was incurred. If operating reserves are 20% up to 35% and expenditure is not Health and Safety related, LHA submitted Request form and received DHCD approval <u>prior to expenditure</u> . No operating reserve expenditures if operating reserve is below 20% and expenditure is not Health and Safety related.			
B. Tenant Accounting			
Total # of exceptions:	Rating:		
	Exceptions	CPA Recommendations	LHA Response
A. Select a random sample of rent transactions (Small - 5, Med - 10, Large - 15, Very Large - 20) of rent transactions. Include at least 20% are credit adjustments and 20% are lease enforcements (if have).			
1. The Authority retained supporting documentation for rent receipts.			
2. The Authority posted rent receipts to the correct tenant accounts.			
3. The Authority retained documentation supporting credit adjustments.			
4. The Authority followed its rent collection policy for non-payment of rent (i.e., issued a notice to quit, followed eviction protocol.)			
B. Account Write-Offs			
1. Documentation of Board approval to write-off account (board approval of write-off required per budget guidelines for Acct #4570 - Collection Loss).			
C. Vacancies Being Reported in Vacancy System			
1. Verify that the number of vacant units accounted for in the LHA's operating software is the same number of vacancies reported by the LHA in the DHCD On-Line Vacancy System for the fiscal year.			
C. Payroll			
Total # of exceptions:	Rating:		
	Exceptions	CPA Recommendations	LHA Response
A. Wage Reporting			
1. Actual wages for the Top 5 highest paid employees was consistent with the DHCD-approved budget (Schedule of All Salaries and Positions Report), excluding over-time and longevity payments. (Tolerable error of +/- 3.0% of budgeted salary)			
2. Verify the amount reported on the Top 5 Compensation Form matches exactly the amount reported on reconciled to the WR-1.			

3. LHA is in possession of DHCD-approved executive contract signed by the LHA, Executive Director and DHCD. If LHA can show that currently being processed by DHCD and was not returned to the LHA for failing to meet DCHD's requirements, LHA can produce the last DHCD-approved executive contract or at-will agreement signed by the LHA, Executive Director and DHCD.			
B. Payroll Testing for all employees from all funding sources - Select a single payroll period:			
1. The payroll register accurately accounts for time worked as logged on employee timesheets/time cards.			
2. Timesheets/time cards are maintained by all employees (including Executive Director) and were approved by supervisor (except Executive Director) including leave taken.			
3. Annual leave time (i.e., sick, vacation, personal) used is identified on timesheets/time cards and accurately accounted for in a compensated absences register.			
C. Compensated Absences Policy			
1. Personnel Policy includes (1) the limits on the amount of vacation and sick leave that will be accrued each year, and when and how such leave will be accrued; (2) a limit on the amount of accrued vacation that may be carried over from year to year, and; (3) a cap on the payout for accrued and unused sick leave at the end of employment per PHN 2017-14.			
2. The Authority is accounting for annual leave time earned in accordance with the Authority's personnel policy.			
D. Accounts Payable			
Total # of exceptions:	Rating:		
	Exceptions	CPA Recommendations	LHA Response
A. Select a random sample of (Small - 15, Med - 20, Large - 25, Very Large - 25) cash disbursement transactions. The auditor may substitute random selections for large or unusual items identified in a review of the cash disbursements journal. The auditor should substitute for at least one credit card statement, at least one employee expense reimbursement transaction, at least one capital expense, at least one operating expense and at least one debit card transaction. For all discrepancies, to the right detail the type of payable, the date, the charge, and the amount.			
1. Cash disbursements were authorized in accordance with the Authority's policies.			
2. Cash disbursements are in agreement with supporting documentation.			
3. Supporting documentation is sufficiently detailed.			
4. Costs are allowable (i.e. sales tax, alcohol, lottery tickets)			
5. Costs are properly allocated to the correct program(s). Cost of current year additions are allocated to programs in a manner consistent with the use of the asset.			
6. Costs are properly classified.			

E. Inventory			
Total # of exceptions:	Rating:		
	Exceptions	CPA Recommendations	LHA Response
A. Capital and Non-Capital Asset Inventory			
1. The Authority performed a physical count of its capital asset and non-capital asset inventory at least annually (non-capital assets are refrigerators and stoves and other furniture equipment over the Authority's non-capital inventory threshold, which may not exceed \$1,000).			
2. Capital and Non-Capital Asset inventory includes all necessary information to identify the asset. For non-capital assets that includes a tag with an LHA-assigned number for all assets of \$1,000 or more (and all refrigerators and stoves of any value). For relevant assets of \$5,000 or more that includes the make/model/year for vehicles and the FISH number.			
3. The Authority identified additions and disposals of capital and non-capital assets for the accounting period.			
4. Select a random sample of non-capital assets by tag number (Small - 3, Med - 6, Large - 9, Very Large - 12) and verify existence.			
F. Procurement			
Total # of exceptions:	Rating:		
	Exceptions	CPA Recommendations	LHA Response
<p>For A to C below, examine the cash disbursements journal (or check register) as well as the contract register and identify purchases of goods and services during the year that should have been competitively procured. From these purchases that should have been competitively procured, select a sample (Small - 3, Med - 5, Large - 7, Very Large - 9) of known or possible procurements valuing \$10,000 or more; if possible when selecting the sample, include at least one procurement valuing \$10,000 to \$50,000 and one procurement valuing more than \$50,000 (for goods and services for MGL c. 30B only). If any in the sample were not competitively procured, enter as an exception in A. For sampled purchases that went through procurement, follow procedures under B or C below depending on the size of the procurement.</p>			
A. Procurement Policy			
1. The Authority's procurement policy is consistent with the requirements of MGL c. 30b (or more conservative federal regulations).			
2. The Authority maintains a contract register which includes the following information: contractor, description, active/inactive, start date, end date, extensions available, contract award amount, change orders amount, contract expenditures to date and remaining value.			
<p>B. Known and possible procurements valuing (\$10,000 up to and including \$50,000) (for goods and services for MGL c. 30B only). LHA can follow more conservative federal regulations when applicable. [- If N/A selected for any one below, then default all drop downs to N/A in this section]</p>			
1. Proper procurement method used.			
2. Proper selection based on MGL c.30B s.5 solicitation of quotes requirements.			

3. Documentation of a written purchase description with solicitation of <u>written</u> quotes from at least three persons.			
4. Contract was for not more than 3 years unless majority board vote allowed it to be longer.			
5. Board vote is documented approving individual contract, or a board vote to delegate authority over certain contracts (by dollar threshold or other criteria) to an LHA staff member, usually Executive Director.			
6. Contract did not go through automatic renewals unless renewals were part of the original procurement.			
7. The contracts are included on the Authority's contract register.			
C. Known and possible procurements valuing (more than \$50,000) (for goods and services for MGL c. 30B only). LHA can follow more conservative federal regulations when applicable. [- If N/A selected for any one below, then default all drop downs to N/A in this section]			
1. Proper procurement method used.			
2. Proper selection based on MGL c.30B s.5 IFB requirements or MGL c.30B s.6 RFP requirements. If using MGL C.30B s.6 RFP requirements, LHA must have a Chief Procurement Officer (CPO) conduct the procurement under c.30B s.6.			
3. Documentation of Newspaper advertisement, LHA's Office and COMMBUYS two weeks prior to bidding process. If contract was for over \$100K, it was advertised in the Goods & Services Bulletin.			
5. If IFB, contract award went to lowest bidder. If RFP, contract went to lowest bidder or letter explaining why went with another bidder.			
6. Board vote is documented approving individual contract, or a board vote to delegate authority over certain contracts (by dollar threshold or other criteria) to an LHA staff member, usually Executive Director.			
7. Contract did not go through automatic renewals unless renewals were part of the original procurement.			
8. The contracts are included on the Authority's contract register.			
G. Eligibility Compliance			
Total # of exceptions:		Rating:	
	Exceptions	CPA Recommendations	LHA Response
A. Public Housing - Select a sample (Small LHA - 5, Medium LHA - 10, Large or Very Large LHA - 15) of tenant files (from programs 200, 667, 705); if the LHA has multiple property managers, at least one file should be selected per manager.			
1. The Authority performed timely annual rent determinations (or bi-annual if the Authority has a waiver from DHCD to do so).			
2. The Authority properly calculated rent.			
3. The Authority verified family composition.			
4. The Authority verified income, exclusions from income and deductions.			
5. The Authority properly sent notifications of rent redetermination at least 60 days prior to the effective date.			

6. The Authority properly sent notifications of rent change at least 14 days prior to the effective date.			
7. The Authority was timely in the execution of lease addendums.			
B. MRVP - Select a sample of annual rent determinations (sample 10% (min:1 max:15) of leased MRVP units). [- If N/A selected for any one below, then default all drop downs to N/A in this section]			
1. The Authority performed timely annual rent determinations.			
2. The Authority properly calculated rent.			
3. The Authority verified family composition.			
4. The Authority verified income, exclusions from income and deductions.			
5. The Authority obtained Certificates of Fitness (COF).			
6. The Authority obtained Letters of Compliance for Lead Paint if child <6 years old and building built prior to 1978 with no new construction permit.			
7. The Authority obtained Proofs of Ownership			
8. The Authority obtained Proofs of Insurance			
9. The Authority obtained W9s for landlords.			